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Message Text

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ACTION EA-12

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C O N F I D E N T I A L JAKARTA 10224

DEPARTMENT PASS EXIMBANK

EA FOR AMBASSADOR MASTERS

COMMERCE FOR MEPD

E.O. 11652: GDS
TAGS: BENC, ECRE, EMIN, ID
SUBJECT: MAJOR PROJECTS: BINTAN ISLAND ALUMINA SMELTER PROJECT

REF: JAKARTA 0876

1. SUMMARY: FOLLOWINGPROGRESS REPORT ON CURRENT DEVELOP-
MENTS CONCERNING BINTAN ISLAND ALUMINA SMELTER PROJECT
IS BASED ON INFORMATION FROM HIGHLY RELIABLE SOURCES.
DESPITE THEIR QUALMS OVER ECONOMICAL FEASIBILITY OF
PROJECT, EMBASSY BELIEVES INDONESIANS WILL DECIDE TO GO
AHEAD AS PLANNED WITH KLOECKNER (WEST GERMANY), AS LONG
AS ALCOA AND/OR KAISER PLAY LEADING TECHNICAL ROLE.
AT THIS POINT IN NEGOTIATIONS ALCOA'S ROLE IN THE CON-
SORTIUM HAS STRENGTHENED SUBSTANTIALLY. INFORMATION
IS GIVEN CHRONOLOGICALLY FOR CLARITY'S SAKE. END SUMMARY.

2. BINTAN ISLAND. ON MAY 19 INDONESIAN GOVERNMENT,
UNDER INSTRUCTIONS FROM PRESIDENT SUHARTO AND WITHOUT
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USING INTERNATIONAL TENDER PROCESS, SIGNED A LETTER OF
INTENT FOR CONSTRUCTION OF THE $430 MILLION, 600,000 TON/
YEAR ALUMINA SMELTER PROJECT WITH A CONSORTIUM HEADED
BY KLOECKNER (WEST GERMANY) AND INCLUDING HUMBOLDT
WEDAG (WEST GERMANY) AND ALCOA; THE LATTER WILL BE
RESPONSIBLE FOR TECHNICAL ASPECTS.

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3. EXIMBANK THEN RECEIVED APPLICATION FOR A PLREMINARY COMMIMITMENT FROM KLOECKNER INA INDUSTIAL INSTALLATIONS, INC., 200 GARDEN CITY PLAZA, GARDN CITY, NEW YORK 11530. INDONESIAN MINISTRY OF FINANCE INFORMED EXIM ON JUNE 22 THAT QUOTE THE REPUBLIC OF INDONESIA WILL ACT AS OBLIGOR FOR FINANCING REQUIREMENTS UNQUOTE. EXIM HAS NOT YET ACTED ON THE REQUEST.

4. IN A RECENT CONVERSATION WITH EMBOFFS, REPRESENTATIVE OF KLOECKNER NEW YORK EXPRESSED CONCERN AT SLOW EXIM RESPONSE. EMBOFFS ASSURED HIM THIS WAS NOT IRREGULAR, SINCE KLOECKNER'S ARRANGEMENTS APPARENTLY FAR FROM COMPLETE. FINANCIAL PACKAGE INVOLVES $250 MILLION FROM U.S. AND $50 MILLION EACH FROM GERMANY, FRANCE, NETHERLANDS, SINGAPORE AND AUSTRALIA. KLOECKNER ANTICIPATES U.S. PORTION WILL BE 60 PERCENT EXIM, 25 PERCENT CITIBANK (ALREADY ARRANGED) AND 15 PERCENT INDONESIAN GOVERNMENT FINANCING.

5. THERE WAS SOME INITIAL UNHAPPINESS THAT INTERNATIONAL TENDER PROCESS HAD BEEN ABORTED AND THAT KLOECKNER CHOSEN TO HANDLE PROJECT. (ONLY INCLUSION OF ALCOA AS TECHNICAL SUB-CONTRACTOR MADE SELECTION OF KLOECKNER AS GENERAL CONTRACTOR FEASIBLE.) THESE MIS-GIVINGS FADED SOMEWHAT, HOWEVER, AFTER MEETINGS JULY 19 AND 20 BETWEEN P.T. ANEKA TAMBANG, OWNER OF THE BINTAN
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PROJECT, AND THE KLOECKNER AND ALCOA REPRESENTATIVES. MEETING REVEALED THATALCOA WILL PLAY LEADING ROLE IN PROJECT DEVELOPMENT, HAVING GUARANTEED TECHNICAL QUALITY OF SMELTER INSTALLATION, FULL TRANSPARENCY OF ALCOA-KLOECKNER DOCUMENTATION AND ALL INVOICES INVOLVED IN PROJECT, AND INTENTION TO SETTLE PRIVATELY WITH ANEKA TAMBANG AND WITHDRAW ENTIRELY FROM PROJECT IF IN FUTURE ANY QUESTIONS ARESES OF EXCHANGE OF MONEY BETWEEN GOI ANDPROJECT PARTICIPANTS. MINUTES OF MEETING BEING POUCHED TO EA/TIMBS, EXIM (C.. HOUSTON) AND USDOCMEPD.

6. ALTHOUGH PROJECT NOW APPEARS TO BE PROGRESSING IN A SATISFACTORY MANNER THAN PREVIOUSLY ANTICIPATED, AMNY TECHNOCRATS REMAIN UNCONVINCED THAT ENTIREPROJECT IS ECONOMICALLY FEASIBLE, SINCE IT INVOLVES PROCESSING OF BELOW-EXPORT GRADE BAUXITE WHICH CAN ONLY BE USED IN CONJUNCTION WITH THE EXCEEDINGLY EXPENSIVE ($2 BILLION) JAPANESE-INDONESIAN ASAHAN HYDROELECTRIC/ALUMINUM PRO-JECT IN SUMATRA WHICH IS SUPPOSED TO BE FUNCTIONING BY 1982/83. PLANS INVOLVE SALE OF 85 PERCENT OF PRODUCTION TO ASAHAN AND 15 PECENT TO KLOECKNER FOR DISTRIBUTION WORLDWIDE. ESTIMATES ARE THATPRICE OF ALUMINA MUST BE

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$185/TON OR HIGHER AT TIME PROJECT GOES ON-STREAM IN ORDER TO BE ECONOMICALLY JUSTIFIED. (CURRENT 1978 PRICE IS ESTIMTED AROUND $150/TON.) INDONESIAN GO OR NO GO DECISION SCHEDULED FOR NOV/DEC 1978, WITH CONSTRUC-TION CONTRACT TO BE SIGNED BY END OF JANUARY 1979.

7. COMMENTS: FOREGOING REMARKS SHOULD NOT PREJUDICE EXIM DECISON ON MAKING PRELIMINARY COMMITMENT TO PRO-MOTE U.S. PARTICIPATION IN THIS PROJECT. EMBASSY BELIEVES ASAHAN AND BINTAN ISLAND PROJECT IRREVOCABLY TIED FOR POLITICAL REASONS AND BOTH WILL BE GIVEN GO AHEAD. TOTAL PACKAGE WOULD MAKE INDONESIA ONLY COUNTRY IN SOUTHEAST ASIA WITH FULLY INTEGRATED ALUMINUM PRODUCTION CAPABILITY. CONTINUED HAGGLING OVER RESPECTIVE PRICE
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TAGS, HOWEVER, CAN BE EXPECTED. U.S. FIRMS WILL POBABLY PLAY IMPORTANT ROLE REGARDLESS OF CONTRACT OUTCOME. SHOULD KLOECKNER'S HOLD ON CONTRACTOR POSITION SLIP FOR ANY REASON, KAISER ENGINEERS READY TO OFFER THEIR BID FOR TOTAL PROJECT, INCLUDING FINANCING. (ALCOA COULD NOT CARRY PROJECT ALONE, BUT KAISER CAN). END COMMENTS.
GARDNER

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